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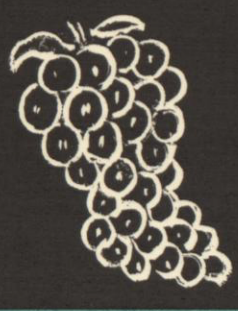
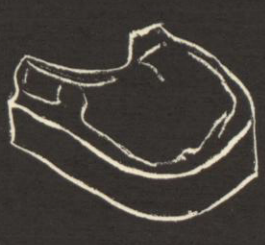
Annual Report

FISCAL YEAR ENDED MARCH 2, 1963

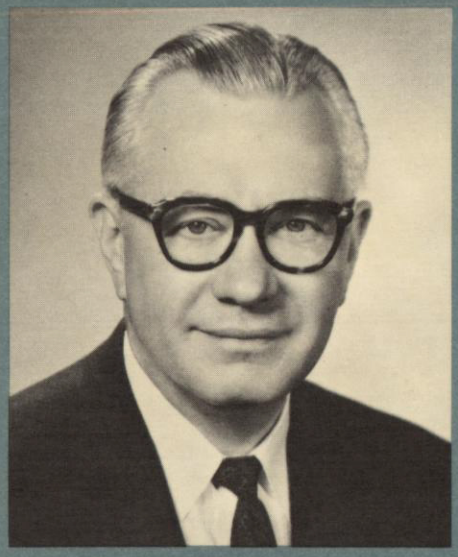




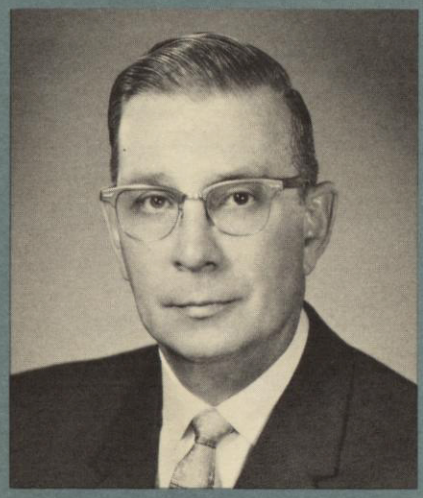
BIG BEAR STORES COMPANY

COLUMBUS, OHIO

Robert H. Ewing



William S. Ireland



Lawrence E. Mack

BIG BEAR STORES COMPANY COLUMBUS, OHIO

OFFICERS

WAYNE E. BROWN, *President and Treasurer*

WILLIAM S. IRELAND, *Executive Vice President*

ROBERT H. EWING, *Vice President*

MICHAEL J. KNILANS, *Vice President*

LAWRENCE E. MACK, *Vice President*

ROGER A. YAPLE, *Secretary*

STEPHEN KELLOUGH, *Vice President*
(Buckeye Premium Stamps)

DIRECTORS

WAYNE E. BROWN

WILLIAM S. IRELAND

ROBERT H. EWING

EXECUTIVE COMMITTEE

WILLIAM S. IRELAND

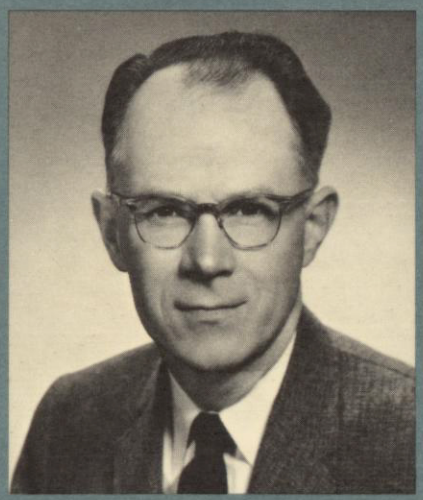
ROBERT H. EWING

LAWRENCE E. MACK

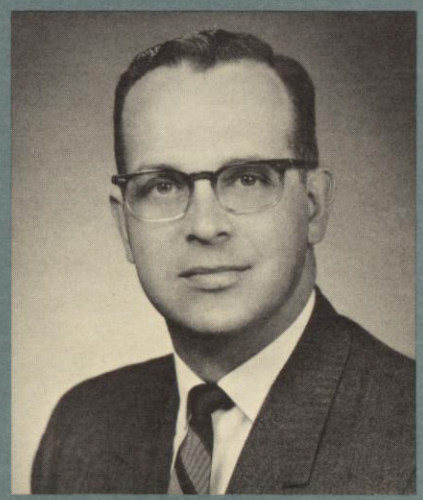
Transfer Agent for Class A Common Stock and Trustee for Debenture Issue

THE OHIO NATIONAL BANK OF COLUMBUS
Columbus, Ohio

Michael J. Knilans



Roger A. Yaple



Stephen Kellough

Wayne E. Brown, President, Big Bear Stores Company.

PRESIDENT'S LETTER

April 30, 1963

To Our Stockholders:

It is a pleasure for me to report that in the year ending March 2, 1963, our Company maintained its pace of energetic and continuous growth. Both consolidated sales and earnings reached an all-time high.

Consolidated sales of Big Bear Stores Company, and its subsidiaries (Hart Stores, Inc., Buckeye Premium Stamps, Inc., and Zane Trail Realty, Inc.) for the fiscal year (53 weeks) ended March 2, 1963 amounted to $102,369,180.16. For the preceding fiscal year through February 24, 1962 (52 weeks), sales were $96,227,051.04. This represents an increase

of $6,142,129.12, or over 4% of sales, when the percentage has been adjusted to reflect the difference in length of time in the two fiscal years.

Earnings of the Company after all charges, before Federal taxes on income, were $4,175,878.41 in the latest fiscal year, compared with $3,724,477.22 in the previous year. Net income after taxes was $2,089,801.08 against $1,827,517.16 in the year before. The net income was equal, after preferred dividend requirements, to $1.66 per share on the 1,246,664 common shares outstanding at March 2, 1963. This compares with $1.48 per share last year. As a result of the 2½% stock dividend paid January 1, 1963, the number of shares outstanding increased by 24,965 shares over the number outstanding one year ago on February 24, 1962.

We have continued our policy of financing expansion from internally generated funds. In addition, in the last eight years we have reduced our long-term indebtedness on debentures by nearly one million dollars, and in the coming year will pay the final installment on the purchase of Hart Stores, Inc., which Big Bear purchased in 1954 for approximately three-quarters of a million dollars. We have funds on hand to carry forward our planned expansion, and in my opinion our Company is in the strongest financial position ever. It is now the intention of the Directors, as to dividend policy for the fiscal year ending February 1964, to pay in cash 17¢ quarterly for three quarters, beginning April 1, 1963, July 1, 1963, and October 1, 1963; then pay a 2½% stock dividend on January 1, 1964. This is in line with our policy of paying dividends partially in cash and stock so that funds may be retained for further expansion.

During the year other events of interest affecting Big Bear took place. Amendments to the Federal Internal Revenue Code provided changes in depreciation allowances and a new tax credit is deductible based on the purchase of certain assets qualifying for the special treatment. In our case, the depreciation changes will not affect our treatment of this item, but the Investment Tax Credit will be beneficial. A complete review of the impact of the amendments as applied to Big Bear and its subsidiaries has been made.

Expansion and remodeling: Three new stores were opened during the year. On March 21, 1962, a new store occupying 21,000 square feet of space, was opened in Huntington, West Virginia, making two Big Bear Stores in that city. This store is part of a shopping center initiated by Big Bear Stores Company.

The second new store was opened on October 10, 1962, in the Lincoln Village Shopping Center on West Broad Street in Columbus. This store has approximately 30,000 square feet. In addition to all regular departments, it features an in-store self-service bakery, a complete drug prescription department and an extra large general merchandise section.

The third new store was opened October 31, 1962, in the Thurber Village Shopping Center at Goodale and Neil Avenues in Columbus, replacing the store formerly located at 40 West Spruce Street in Columbus.

We are ever mindful of modern stores and vigorously continue our remodeling program to keep our stores up to date in equipment and facilities. Stores at Springfield, Chillicothe, Newark and Marietta, Ohio were completely remodeled during the year and two of them enlarged.

We plan on opening four new Big Bear stores during the coming year: one in the Berwick Plaza Shopping Center in Columbus; another at Brice Road and Livingston Avenue in Reynoldsburg, Ohio; and two at undisclosed locations.

In addition, Hart Stores, Inc. will enter the discount merchandising field by opening a discount center in Wolfhurst, Ohio, under the name of Hart's Discount Center. The new center will be located two miles west of the Ohio River on U. S. Route 40, and will serve the Wheeling, West Virginia area, plus the Ohio communities of Bridgeport, Bellaire and Martins Ferry. This is an area in which we feel the discount operation will have a wide acceptance.

The Eastern Ohio Hart Center unit will be a fireproof brick building with an attractive front of brick and panels of mosaic murals. The unit will be air-conditioned and equipped with modern fixtures and conveniences. The 100,000 square foot building and the 1,000 car parking lot will cover approximately 15 acres of ground. It will be the largest store in Eastern Ohio with the total sales area all on one level.

Hart's Discount Center will have in addition to general merchandise, a large food department of 21,000 square feet of grocery space, including perishables. The store will have wearing apparel and accessories for every member of the family, a complete drug department with a pharmacy, housewares (including small appliances), sporting goods, photography equipment and supplies, hardware items, jewelry, a large line of gift items, toys, a department devoted to auto supplies and accessories, a self-service laundromat, and many other lines of merchandise and services.

Construction of the building will start immediately, with the grand opening planned for early Fall of 1963. The total operation will employ approximately 250 people.

Long recognizing the profit potential by selling more general merchandise in Home Center Departments, Big Bear has further increased the selling space devoted to these items in most all of its units.

Promotions and Public Relations: Our special advertising promotions during the year included five performances of the popular national network television show of "Queen for a Day", which originated live from Columbus. During their stay here, TV Stars Jack Bailey and Jeanne Cagney entertained over 25,000 Big Bear shoppers at the Veterans Memorial Building in Columbus, plus millions on television and radio. Numerous valuable prizes were given away to those who were present.

The Columbus Jets' opening night and second game were sponsored by Big Bear on April 25 and 26, 1962, and approximately 23,000 Big Bear baseball fans were treated to free games. We have continued this promotion over the past four years.

On August 1, 1962, over 4,000 spectators watched Jack Nicklaus and Arnold Palmer duel in a golf match at Scioto Country Club in Columbus. Many of these viewers purchased tickets offered at a discount at our stores, since Big Bear cooperated in the sale of tickets to the event.

Many other sales and public relations promotions were presented during the year.

In the early post-war period, inflation placed a premium on holding inventories so that

as prices increased, profits were realized by building up inventories. However, in recent years the long-term factors making lower inventories and higher turnover good business, have re-asserted themselves. For the last few years by means of improved communication, transportation and inventory controls, our ratio of sales to inventories (otherwise known as "turnover") has increased. Several years ago Big Bear was chosen by International Business Machines Corporation to install the first 305 Ramac data processing equipment in the grocery industry. This proved very successful in the control of inventories and aided in the proper buying of merchandise. With the motive in mind of further improving this ratio of sales to inventories, our Data Processing Department was revamped in the current year with the installation of the latest equipment, an IBM Model 1401 Tape-Ramac computer replacing most of the previously used equipment. This computer, used primarily for warehouse inventory control, is of a modular design which can be readily expanded as increased merchandise volumes materialize. This completely transitorized system initially decreased overall data handling time by about thirty per cent (30%). Store orders for merchandise are transmitted to the warehouse faster, which generally provides for better delivery schedules. The increased speed and capacity of the computer permits greater sophistication and flexibility as well as providing statistical data to management and buyers not heretofore available on a timely basis.

Management has devoted special attention to our warehousing and inter-operational transportation in an effort to reduce costs and improve deliveries to the stores. Last November we partially installed a unit known as the "Relae System". This system is an integrated method of selecting, loading and unloading merchandise on an experimental basis, which, if effective, as planned, should result in substantial savings in the future.

Plans have been made and work will be started soon to remodel the general office floor plan, providing additional space for changes and increase in personnel resulting from our expansion program.

Our Buckeye Premium Stamp operation has been improved by the installation of push-button stamp dispensers at each cash register in the stores. This saves the customer and our cashier time at the check-out stand, and customer convenience is also enhanced since the Buckeye Stamps, both single and Big-10, are easier for the customer to save and paste in their Buckeye Saver Book.

We have enjoyed a most successful and profitable year. I wish to take this opportunity to thank our many customers for their patronage, our employees for their perseverance and our stockholders for their continued support.

Wayne L. Brown

President

Looking Ahead to The Future . . .

Plans for Big Bear's future are discussed by a management group. Seated from the left, Thomas Griffith, Director of Meat Operations; Samuel Saporito, Produce and Frozen Food Merchandiser; Don Greek, Director of Advertising; Robert Hood, Drug Merchandiser; Clark Davis, Director of Real Estate, Equipment Buying; William Grether, Director of Construction and Maintenance; William Recob, Sales Promotion and Dairy Buyer; Ralph Harper, Merchandiser of General Merchandise. Standing, David Godfrey, Director of Personnel; Charles Evans, Division Manager, Northern Division; Jack Russell, Division Manager, Southern Division; Roger Woerner, Director of all Warehouse Operations and Dyal Baehr, Head Meat Supervisor.

BIG BEAR PROMOTIONS AND

Mayor Ralston Westlake of Columbus cuts a ribbon, opening the Big Bear Store in Thurber Village. From left to right are A. Charles Brooks, Dan Galbreath, Murray D. Lincoln, Mayor Westlake, Wayne E. Brown, and William S. Ireland.

During her visit to Columbus to promote Big Bear's Annual Apple Promotion, Carolyn Myers, 1962 Jackson County Apple Queen, was interviewed by Sally Flowers and Chuck Nuzum on WTVN-TV.

21,000 Big Bear customers were entertained when Big Bear brought the nationally famous television show, Queen For A Day, to Columbus. Wayne E. Brown looks on while television personality Jack Baily crowns a queen.

PUBLIC RELATIONS DURING 1962

Thousands of golf enthusiasts purchased discount tickets at Big Bear to watch champion golfers Jack Nicklaus, left, and Arnold Palmer, right, duel in a golf match at Scioto Country Club. Governor James A. Rhodes, center, acted as Master of Ceremonies.

In June, Wayne E. Brown was named American Marketing Man of the Year by the Central Ohio Chapter of the American Marketing Association. The award was presented by Theodore J. Andrews, left, Vice President, and James H. Davis, President of the Chapter.

Checker of the Year, Carol Rice and Courtesy Boy, Charles Reed, proudly display their trophies won in Big Bear's Annual Contest. Awards were presented by Lawrence Mack, William Ireland and David Godfrey.

BIG BEAR STORES COMPANY
AND WHOLLY OWNED SUBSIDIARIES

COLUMBUS, OHIO

STATISTICAL SUMMARY OF PAST TWO YEARS

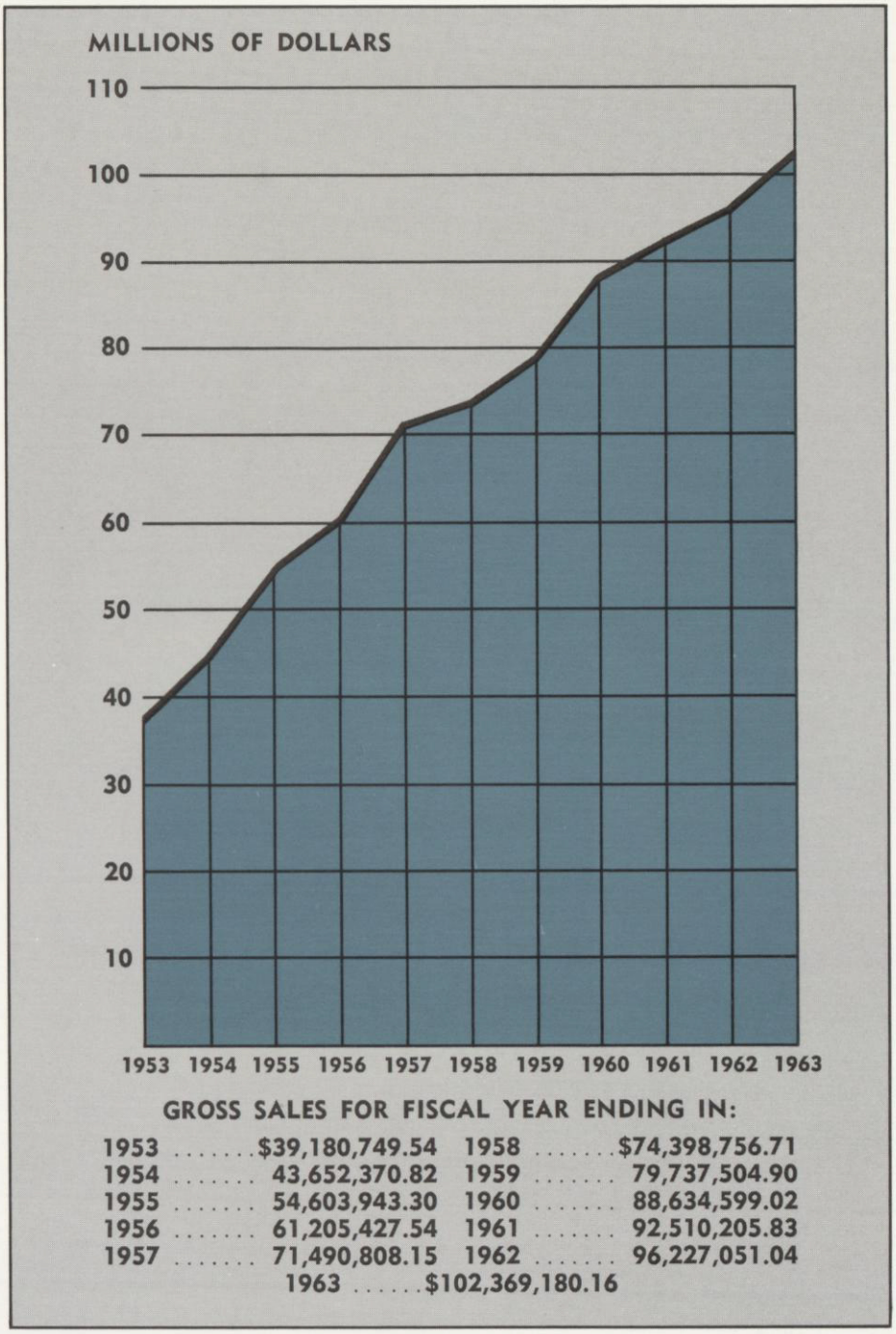
	For The Year Ended	
	March 2, 1963 (53 Weeks)	February 24, 1962 (52 Weeks)
Sales and other income	$102,369,180.16	$ 96,227,051.04
Profit before Federal taxes based on income	$ 4,175,878.41	$ 3,742,374.95
Federal taxes based on income	$ 2,086,077.33	$ 1,914,857.79
Net income	$ 2,089,801.08	$ 1,827,517.16
Percentage of net profit after tax, to sales	2.0%	1.9%
Preferred dividend provision	$ 13,700.00	$ 13,775.00
Common stock:		
Earnings applicable	$ 2,076,101.08	$ 1,813,742.16
Shares outstanding:		
Class B voting	175,145	170,876
Class A non-voting:		
In escrow	122,725	130,730
Other outstanding	948,794	920,093
Total common shares outstanding	1,246,664	1,221,699
Earnings per share:		
Class B voting	$ 1.66	$ 1.48
Class A non-voting:		
In escrow (Note 1)	$ 1.66	$ 1.48
Other outstanding	$ 1.66	$ 1.48
Common dividends paid (Note 2)	$ 618,529.23	$ 538,110.37
Per share (Note 3)	$ .51	$ .42
Stock dividends issued	2½%	3½%
Stores in operation at year-end	38	36

Note 1. Dividends on Class A common stock remaining in escrow are restricted to a maximum of 16⅔¢ per share per annum.

Note 2. Includes cash dividends paid for fractional shares on stock dividends but excludes any value applicable to stock issued as a stock dividend.

Note 3. This excludes cash paid for fractional shares, is applicable only to non-escrowed common stock, and represents only the three quarterly cash dividends paid in each year.

CONSOLIDATED GROSS SALES



GROSS SALES FOR FISCAL YEAR ENDING IN:

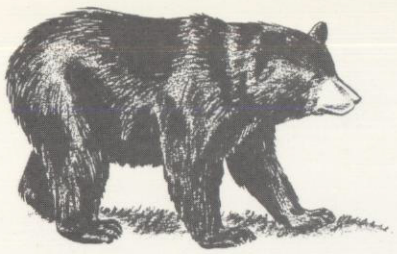
1953	$39,180,749.54	1958	$74,398,756.71
1954	43,652,370.82	1959	79,737,504.90
1955	54,603,943.30	1960	88,634,599.02
1956	61,205,427.54	1961	92,510,205.83
1957	71,490,808.15	1962	96,227,051.04
		1963	$102,369,180.16

Professional pharmacists staff the prescription departments in Big Bear's one-stop shopping centers.

General Merchandise in abundance adds to Big Bear's reputation as a one-stop shopping center.

Big Bear's ultra-modern stores are stocked with every conceivable variety of foods.

Only quality top of the crop fresh fruits and vegetables are sold at Big Bear.



REVIEW OF OPERATIONS

BASIS FOR REPORT

The accompanying consolidated financial statements for the years ending March 2, 1963 and February 24, 1962 include the accounts and operations of Big Bear Stores Company and its wholly owned subsidiaries.

STATISTICAL SUMMARY

Your attention is directed to the "Statistical Summary of Past Two Years" presented on page 8 of this report, which presents a concise comparison of some of the vital statistics of the last two years' operations of particular interest to shareholders. Further comment follows, relating to various items contained therein.

SALES

Sales of Big Bear Stores Company and subsidiaries, for the year ended March 2, 1963, rose to a new record total of $102,369,180.16. This is the first consolidated annual volume exceeding one hundred million dollars. In comparing this with the sales of $96,227,051.04 in the year ending February 24, 1962, it should be kept in mind that our fiscal years are always ended on a Saturday, and thus most annual accounting periods are 52 weeks though each few years we must have an annual period of 53 weeks to have our years end as nearly as possible to the last day in February. The current year is one of those exceptional years including 53 weeks whereas our last year contained only 52 weeks.

It should be noted in addition however, that the average weekly sales of $1,931,493.00 still exceeded the average weekly figure of $1,850,520.00 last year, a gain of approximately 4%.

The sales increases were accounted for in part by the addition of three new stores during the year, by additional emphasis on general merchandise sales, and a general increase in store volume. Our experience in sales coincided with general business conditions which were moderate as the year opened, with improvement in the second quarter, and strengthened as the year closed.

The chart of "Consolidated Gross Sales" presented on page 9 shows an increase from $39,180,749.54 in the year ended February 28, 1953 to $102,369,180.16 in the current year, an increase of over 2½ times in annual sales.

Inter-company transactions have been eliminated from the consolidated sales.

CHART SHOWING CONSOLIDATED PROFIT BEFORE FEDERAL INCOME TAX AND DISTRIBUTION THEREOF

The bar chart on page 14 shows pictorially the profit before federal income tax, the federal income tax expense, retained earnings, and cash dividends paid during the last ten years.

It will be noted that profits before federal income tax have increased from $1,578,687.01 in the first year on the chart (year ending February 28, 1954) to $4,175,878.41 in the current year, an increase of over 2½ times.

The footnote on the chart indicates that in addition to the cash dividends paid beginning with 1958 and continuing through March 2, 1963, a total of 23% has been distributed in stock dividends.

NET INCOME

The Statement of Income and Earned Surplus presented on page 15 of this report, shows a comparative profit and loss statement and earned surplus analysis for the last two fiscal years.

Operating earnings after all charges but before federal income taxes amounted to $4,175,878.41, compared with $3,742,374.95 for the last fiscal year. The same observation should be made concerning the number of weeks in the two years, as is indicated above under "Sales". In any event, this represented an increase of $443,503.46.

Net income of $2,089,801.08 was equivalent, after preferred dividend requirements, to $1.66 per share on the number of shares of common stock outstanding at year-end. This was approximately a 14 percent increase over the fiscal year ending February 24, 1962, when net earnings of $1,827,517.16 were equal to $1.48 per share. This year we were able to obtain a net profit margin (after federal income taxes) in excess of 2% of sales, which is far above the industry average.

The depreciation shown is computed using accelerated amortization methods when applicable, and consistent with the treatment availed of in filing the federal income tax returns.

In computing the federal income tax expense of $2,086,077.33 for the current year, approximately 48% of the investment tax credit was taken as a deduction with the remaining 52% being deferred until later years. The investment tax credit taken as a deduction on the federal income tax return filed for the current year was $95,799.04.

The $2,076,101.08 net after federal income tax and payment of the prior preferred stock cash dividend, represents an 18% return on the average common stock equity in the year.

DIVIDENDS

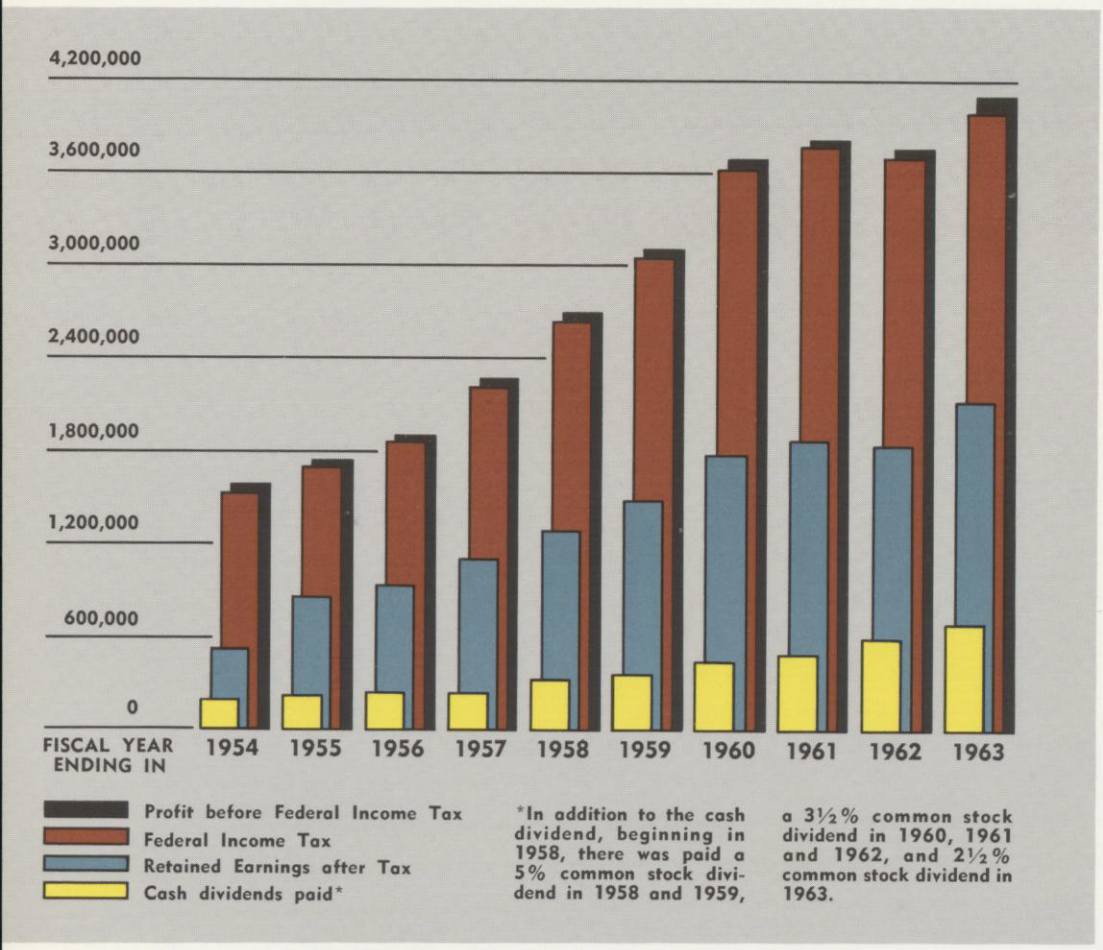
Cash dividends were increased from 42¢ per share paid last year on the common stock not held in escrow, to 51¢, paid at the rate of 17 cents in each of the first three quarters this year. In addition 16⅔¢ per share was paid on the Class A common stock in escrow in each year.

Cash dividends of $5.00 per share were distributed during the year on the preferred stock.

The total cash dividends paid this year were $632,229.23, an increase of $80,343.86 over the $551,885.37 paid last year.

(Continued on Page 14)

CONSOLIDATED PROFIT BEFORE FEDERAL INCOME TAX AND DISTRIBUTION THEREOF



DIVIDENDS—(Continued from Page 13)

The policy of supplementing the cash dividends followed since 1958, was continued by the payment of a 2½% stock dividend on January 1, 1963. Transfer of $399,456.00 was made from earned surplus to capital stock to capitalize the market value of the stock dividend. A recapitulation of the shares issued and the stated value of the stock dividend is as follows:

	Number of Shares	Stated Value
Class A common stock	20,697	$331,152.00
Class B common stock	4,269	68,304.00
Totals	24,966	$399,456.00

BALANCE SHEET COMMENTS

Cash and U. S. Government bonds increased during the fiscal year from $3,427,503.89 to $4,729,257.04. Inventories of merchandise rose to $7,583,625.44 on March 2, 1963, from $7,086,896.80 a year earlier, reflecting increased sales and additional store requirements.

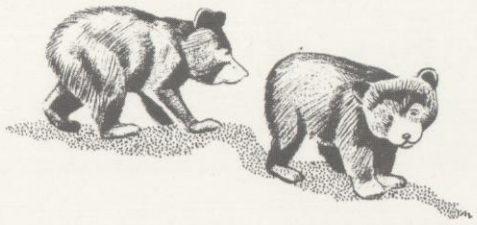
Continued on Page 18

BIG BEAR STORES COMPANY
AND WHOLLY OWNED SUBSIDIARIES

COLUMBUS, OHIO

STATEMENT OF INCOME AND EARNED SURPLUS FOR THE YEARS ENDED MARCH 2, 1963 (53 WEEKS) AND FEBRUARY 24, 1962 (52 WEEKS)

	March 2, 1963 (53 Weeks)	February 24, 1962 (52 Weeks)
Gross sales and other income	$102,369,180.16	$ 96,227,051.04
Cost of sales and expenses excluding depreciation	96,784,788.26	91,191,741.39
Profit before depreciation and federal taxes based on income	$ 5,584,391.90	$ 5,035,309.65
Depreciation	1,408,513.49	1,310,832.43
Profit before federal taxes based on income	$ 4,175,878.41	$ 3,724,477.22
Federal taxes based on income for the current year	2,086,077.33	1,914,857.79
Net profit from operations for current year	$ 2,089,801.08	$ 1,809,619.43
Adjustment to reflect examination by Internal Revenue Service through February 27, 1960		17,897.73
Net profit to earned surplus	2,089,801.08	$ 1,827,517.16
Earned surplus at beginning of year	7,287,822.38	6,935,320.59
	$ 9,377,623.46	$ 8,762,837.75
Dividends:		
Paid in cash	$ 632,229.23	$ 551,885.37
3½% Stock dividend March 2, 1963 and 2½% stock dividend February 24, 1962 (at market value on dividend date)	399,456.00	923,130.00
Total dividends	$ 1,031,685.23	$ 1,475,015.37
Earned surplus at end of year	$ 8,345,938.23	$ 7,287,822.38



BIG BEAR STORES COMPANY

COLUMBUS,

BALANCE SHEET

ASSETS

CURRENT ASSETS		
Cash on hand and in banks		$ 4,326,589.74
U. S. Treasury bonds at cost, less amortized premium (Market value $403,375.00)		402,667.30
Notes receivable and accrued interest		115,025.14
Accounts receivable		209,989.22
Merchandise inventory at lower of cost or market		7,583,625.44
Real estate developed and held for resale—net of depreciation		1,041,816.04
Other current assets		11,552.18
Total current assets		$13,691,265.06
OTHER ASSETS		
Cash surrender value of life insurance on officers	$ 61,179.54	
Investments, at cost	161,200.00	
Miscellaneous other assets	35,700.00	
Total other assets		258,079.54
PROPERTY ASSETS—(at cost)		
Buildings	$ 342,877.70	
Leasehold improvements	4,367,152.79	
Store and warehouse fixtures and equipment	7,830,933.34	
Office equipment	279,733.37	
Automobiles and trucks	446,336.53	
Other depreciable assets	157,400.87	
Total	$13,424,434.60	
Less reserves for depreciation and amortization	7,270,173.70	
Net property assets subject to depreciation and amortization	$ 6,154,260.90	
Land	506,426.70	
Net property assets		6,660,687.60
DEFERRED CHARGES		
Prepaid insurance	$ 207,903.43	
Unamortized debenture discount and expense	51,797.55	
Lease acquisition costs less amortization	28,107.21	
Other deferred charges	158,405.93	
Total deferred charges		446,214.12
TOTAL ASSETS		$21,056,246.32

AND WHOLLY OWNED SUBSIDIARIES

OHIO

MARCH 2, 1963

LIABILITIES

CURRENT LIABILITIES		
Notes payable—due within one year		$ 453,733.44
Accounts payable—trade		2,397,035.38
Accrued taxes:		
Other than federal taxes based on income	$ 605,734.62	
Balance of federal income for current year	1,216,658.16	1,822,392.78
Balance due trustees of employee's profit sharing and pension plans for the current year		285,063.68
Estimated cost of redeeming Buckeye Premium stamps issued and outstanding		1,287,133.48
Payments due sinking fund for retirement of debentures (Note A)		100,000.00
Other current liabilities		244,366.86
Total current liabilities		$ 6,589,725.62
DEFERRED INCOME		207,738.08
Total current liabilities and deferred income		$ 6,797,463.70
LONG-TERM INDEBTEDNESS		
Twenty-year 4½% sinking fund debentures due July 15, 1974 less amount payable to sinking fund within one year (Note A)		1,597,500.00
Total liabilities and deferred income (Note B)		$ 8,394,963.70
DEFERRED FEDERAL INCOME TAX ON INVESTMENT CREDIT (Note C)		41,388.39

NET WORTH

CAPITAL STOCK			
Prior preferred stock, 5% cumulative, $100.00 par value:			
Authorized 3,500 shares; issued and outstanding 2,740 shares at par value		$ 274,000.00	
Preferred stock, 5% cumulative, $100.00 par value:			
Authorized 36,000 shares—none issued (Note D)			
Common stock—stated value:			
Class A non-voting $.33⅓ par value:			
Authorized 1,300,000 shares;			
Issued and outstanding 1,071,519 shares of which 122,725 are held in escrow (Note E)	$ 3,242,147.50		
Class B, voting $.33⅓ par value:			
Authorized 275,000 shares:			
Issued and outstanding 175,145	685,937.75		
Total common stock at stated value		3,928,085.25	
Total capital stock		$ 4,202,085.25	
SURPLUS			
Paid-in surplus	$ 71,870.75		
Earned surplus (Note F)	8,345,938.23		
Total surplus		8,417,808.98	
Total net worth			12,619,894.23
TOTAL LIABILITIES AND NET WORTH			$21,056,246.32

Appetizing pastries prepared in Big Bear's own in-store bakeries.

Continued from Page 14

Consolidated net working capital increased to $7,101,539.44 from $5,819,391.90. The ration of current assets to current liabilities was $13,691,265.06 to $6,589,725.62, or 2 to 1.

Net purchases of property assets during the year were $1,476,674.45 while the provision for depreciation and amortization was $1,408,513.49.

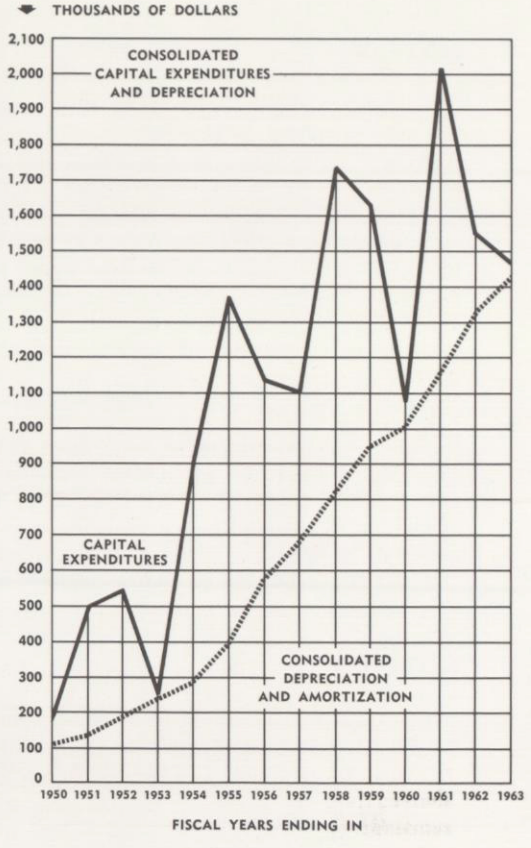
Total assets at March 2, 1963 were $21,056,246.32 compared to $18,991,849.38 at February 24, 1962.

A comparative statement of source and application of funds is as follows:

	Year Ended March 2, 1963 (53 Weeks)	Year Ended February 24, 1962 (52 Weeks)
FUNDS PROVIDED		
Net profit	$2,089,801.08	$1,827,517.16
Depreciation	1,408,513.49	1,310,832.43
Increase in deferred income	44,622.54	1,106.47
Net (gain) or loss from disposition of property assets	29,284.37	(3,995.60)
Deferred taxes resulting from investment credit	41,388.39	
Funds provided	$3,613,609.87	$3,135,460.46
FUNDS APPLIED		
Cash dividends	$ 632,229.23	$ 551,885.37
Additions to property assets (net)	1,476,674.45	1,550,473.98
Reduction in long-term indebtedness and retirement of stock	153,760.38	162,733.38
Net increase in other assets, deferred charges and prepaid expenses	21,316.45	103,691.43
Increase in working capital	1,282,147.54	766,676.30
Depreciation applicable to real estate held for resale	47,481.82	
Funds applied	$3,613,609.87	$3,135,460.46

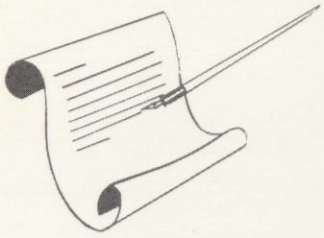
INVESTMENT IN PROPERTY ASSETS

The following chart shows a comparison between the net additions to property assets the last 14 years, and depreciation charges during the corresponding period:



FINANCIAL STATEMENTS

A comparative statement of income and earned surplus, and a balance sheet as of March 2, 1963, together with notes to the financial statements and the independent auditor's certificate applicable thereto, are presented in this report.



NOTES TO FINANCIAL STATEMENTS

MARCH 2, 1962

NOTE A

The aggregate principal amount of debentures and additional debentures which may be issued by Big Bear Stores Company, under the original indenture or indentures supplemental thereto, is $4,750,000.00, subject to certain restrictions included therein. The amount authorized and issued July 15, 1954, under the original indenture was $2,000,000.00. During December, 1955, an additional $500,000.00 was issued under a supplemental indenture.

As and for a sinking fund for the retirement of debentures prior to their expressed maturity, the Company is required to deposit with the trustee on November 1, of each year, to and including November 1, 1973, cash in the amount of $80,000.00 plus four percent (4%) of the principal amount of all debentures authorized and issued under the indenture in excess of $2,000,000.00, and not in excess of $2,500,000.00 as of the end of each preceding fiscal year. During the current year $100,000.00 was retired through the sinking fund and $100,000.00 will be due to the sinking fund on or before November 1, 1963.

For restriction on dividends imposed by the debenture indenture, see Note F.

NOTE B

At March 2, 1963, leases were in effect on warehouses, the general office, parking lots, and stores (operating stores and stores under construction) which provide for an annual net rental of approximately $599,000.00 on leases expiring during the ten year period from March 3, 1963 to March 2, 1973; for approximately $577,000.00 on leases expiring during the ten year period from March 3, 1973 to March 2, 1983; and for approximately $60,000.00 on leases expiring after 1983. Leases on stores to be constructed are not included in the above figures.

In computing these amounts the rental income on subleases has been deducted from gross rentals. Most store leases have renewal clauses exercisable at the option of the Company, with little or no increase in annual rental. Certain leases provide for additional rental payments based on sales volume, which amounts are not included in the net rentals shown, because of the indeterminate nature of the rentals.

NOTE C

The Company has applied an "investment credit" of $95,799.04 against its federal income tax liability for the year ended March 2, 1963; $8,705.32 of this was derived from the credit on leased equipment; of the remainder approximately 48 percent has been applied as a reduction of federal income tax expense for the current year, with the balance deferred to subsequent periods to offset the effect of reduced tax depreciation allowances arising from the credit.

NOTE D

None of the presently authorized preferred stock has been issued. When and if issued, the preferred shares ($100.00 par value, entitled to $5.00 cumulative dividends) will be preferred as to dividends and liquidation over any other class of shares except prior preferred shares. No sinking fund for redemption of shares is required. Preferred shares may later be issued in exchange for common stock under "Agreement for Exchange of Stock" as outlined in Note E. The price at which the common stock is to be exchanged for the preferred stock is $10.00 per share.

Under certain circumstances, the Company would be obligated to repurchase the preferred stock in later years.

For further detail, see Note E below and the exchange agreement.

NOTE E

122,725 shares of the Class A non-voting stock are in the hands of an escrow agent, held under the terms of an escrow agreement dated January 12, 1957. Of this amount, 16,022 shares are on option to designated employees and associates of Big Bear Stores Company; and 15,000 shares are on option to Wayne E. Brown, President of the Company, all at a price of $10.00 per share, which options expire May 15, 1963. An additional 91,703 shares may be optioned to employees and associates of the Company at the discretion of the President insofar as such shares are available in escrow. To the extent that these options are exercised, the escrow stock will be reduced and the total Class A common stock issued and outstanding, free from escrow, will be increased.

Under the "Agreement for Exchange of Stock" dated January 12, 1957, preferred stock may be issued in exchange for shares of Class A common stock, unless the Company or optionees shall have acquired all of the 122,725 shares of Class A common stock now held in escrow.

The Class A common stock remaining in escrow will share equally in dividends with all other common shares up to but not in excess of 16⅔¢ cash per share per calendar year, until such time as said shares are released from escrow.

NOTE F

The Corporation's debenture indenture dated July 15, 1954, contains a restriction on certain dividends, which when applied to the parent company only, would provide $2,731,192.51 of earned surplus available for dividends.

No restriction is placed on dividends paid in common stock of the Company, nor to an annual amount of $35,000.00 which is excluded from the restrictions.

The applicable provisions are as follows:

"The Company will not declare or pay any dividends on its preferred or common stock or make any other distribution by purchase of shares or otherwise in excess of the aggregate sum of $35,000.00 per year, unless said excess be paid out of earned surplus available for dividends accumulated from operations subsequent to February 28, 1954, provided that:

(a) until two thirds (⅔) in principal amount of the total debentures authorized and issued hereunder (and under any indenture or indentures supplemental hereto) shall have been retired, only 50% of said earned surplus available for dividends may be used for such purposes,

(b) the aggregate of Thirty-five Thousand Dollars ($35,000.00) per year in dividends permitted to be paid out of earned surplus accumulated at February 28, 1954, shall not be charged against the distributable earned surplus accumulated subsequent to February 28, 1954."

Certain other restrictions on the payment of dividends are imposed in the debenture indenture, computed according to the details and definitions set out in the applicable provisions. The Company may not pay dividends on common stock in event the payment of any dividend on prior preferred, or preferred shares, is in arrears, which restriction is not applicable at the balance sheet date, since all required prior preferred dividends have been paid.

REPORT OF AUDITORS

TO THE SHAREHOLDERS OF BIG BEAR STORES COMPANY:

We have examined the consolidated balance sheet of Big Bear Stores Company and subsidiaries as of March 2, 1963, and the related statements of consolidated income and surplus for the year (fifty-three weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

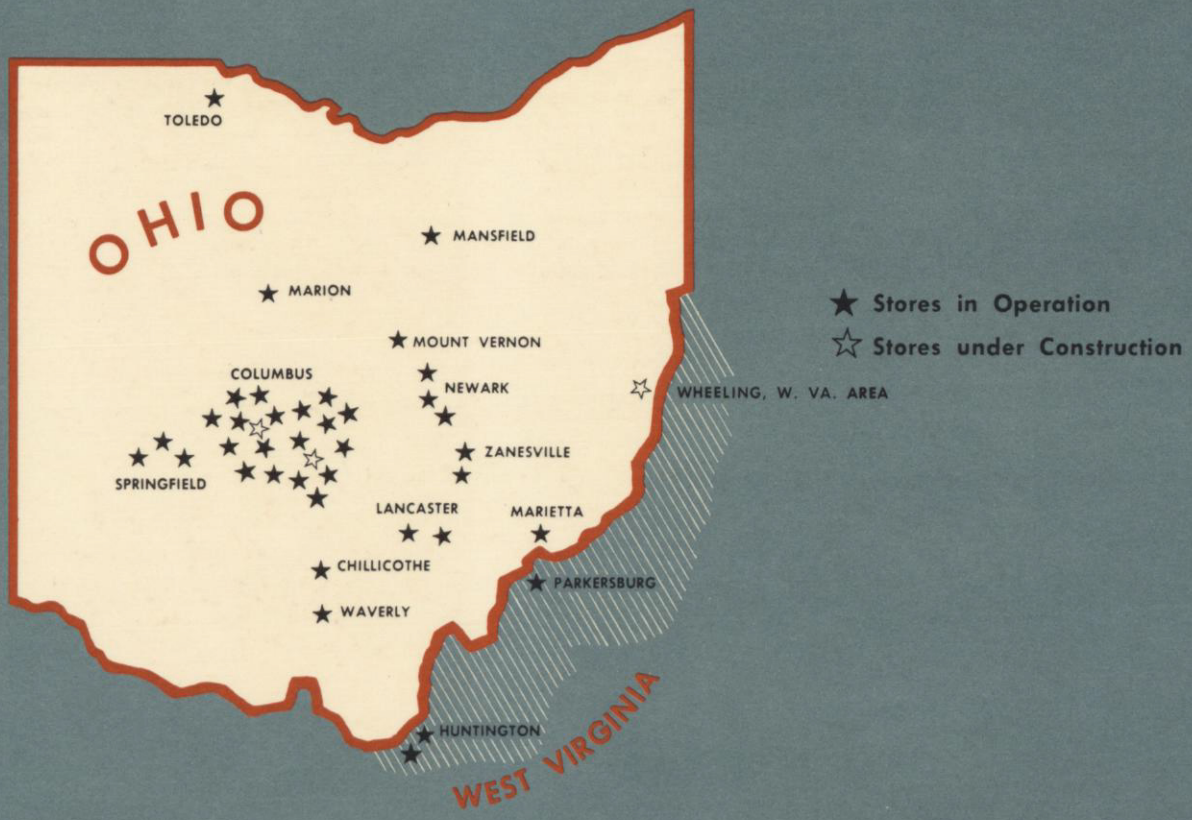
In our opinion the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of Big Bear Stores Company, and subsidiaries as of March 2, 1963, and the results of their operations for the year (fifty-three weeks) then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

E. C. REDMAN
Certified Public Accountant

Columbus, Ohio
April 30, 1963

29 YEARS OF PROGRESS

38 Supermarkets serving twelve Ohio cities Huntington and Parkersburg, West Virginia—and more to come.



BUCKEYE PREMIUM STAMPS

Big Bear's Own Stamp Plan

Serving Millions

BIG BEAR GENERAL OFFICES AND WAREHOUSES

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